



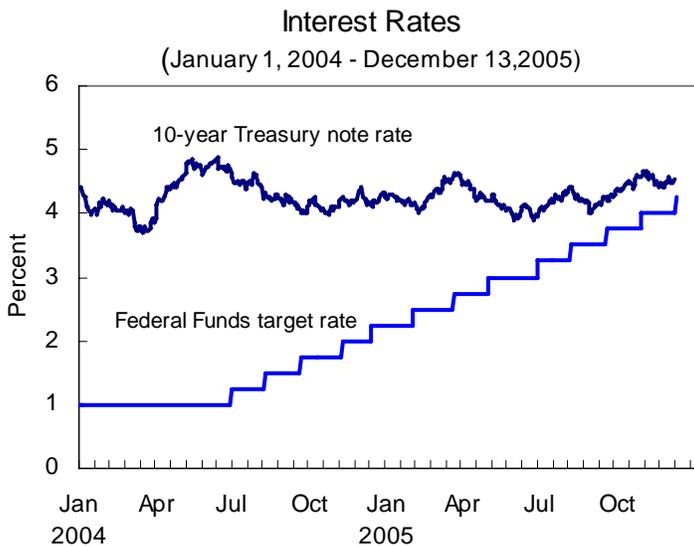
WEEKLY ECONOMIC DIGEST



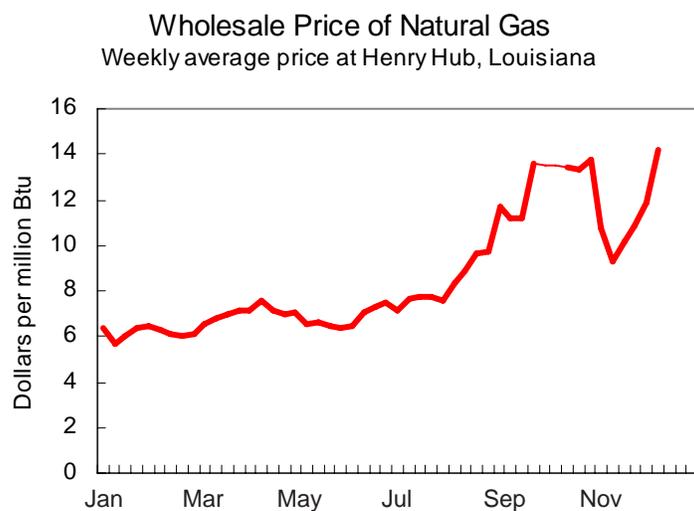
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

December 15, 2005

Fed Raises Rates for the 13th Time



Source: Board of Governors, Federal Reserve System.



Source: Energy Information Agency, U.S. Department of Energy.

Note: Gap in data is due to suspension of trading at the Henry Hub due to Hurricane Rita.

- **The Fed raised short-term rates again.** On Tuesday, the Federal Open Market Committee (FOMC) raised its target for the federal funds rate by ¼ percentage point to 4¼ percent. That is the 13th increase since the middle of last year. The FOMC dropped language describing its monetary policy stance as one of “accommodation,” but it continued to signal the possibility of further increases in rates. As yet, long-term interest rates have not mirrored the rise in short-term rates. The FOMC has raised its target funds rate by 3¼ percentage points since June 2004, but the rate on ten-year Treasury notes is little different from what it was then (see top chart).

- **Retail sales posted a gain last month.** Sales at retail establishments and food services rose by 0.3 percent, to a level that was 6.3 percent higher than a year earlier. Motor vehicle sales were up by 2.6 percent, the first rise since July, but the value of sales at gasoline stations was down by 5.9 percent as a result of a decline in gasoline prices last month. Excluding transactions at motor vehicle dealerships and gasoline stations, sales rose by a respectable 0.5 percent rate in November.

- **Energy prices are on the rise again.** The sharp decline in energy prices from October to November was a significant factor affecting the November consumer price index. However, energy prices remain significantly higher than they were a year earlier and the prices of oil and gas have begun to rise again. Natural gas prices have been especially volatile. The wholesale price per million Btu of natural gas at Louisiana’s Henry Hub soared to \$15 on September 22 (the day before trading at that facility was suspended for two weeks due to Hurricane Rita). It then fell back to \$8.88 by November 7 but has since risen sharply, averaging \$14.23 last week (see bottom chart). The Energy Department anticipates that the 58 percent of U.S. households that heat their homes primarily with natural gas will see their heating bills rise by nearly 40 percent this winter.

The Economy at a Glance	Nov	Oct	Sep	Aug	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	4.3	3.3	3.8	3.3	4.2	2.7
Industrial Production (% growth)*	n.a.	11.4	-16.6	2.4	0.9	1.6	3.8	4.2	4.1	0.6
Capacity Utilization (level, %)*	n.a.	79.5	78.9	80.2	79.7	79.9	79.9	79.4	78.6	75.7
Civilian Unemployment Rate (level, %)	5.0	5.0	5.1	4.9	5.0	5.1	5.3	5.4	5.5	6.0
Housing Starts (thousands)*	n.a.	2014	2134	2081	2092	2044	2083	1973	1950	1854
Real Disposable Personal Income (% growth)	n.a.	2.3	12.5	-16.8	-0.7	0.2	1.0 [#]	4.3 [#]	3.1 [#]	2.4
Retail Sales (% growth)	3.1	4.0	3.7	-19.9	6.9	10.8	5.4	10.4	7.3	4.3
Personal Saving Rate (level, %)	n.a.	-0.7	-0.8	-2.2	-1.5	-0.2	0.5	1.2 [#]	1.5 [#]	2.1
Inflation & Productivity										
CPI-U Inflation, all items (% growth)*	n.a.	2.4	15.4	6.2	5.1	4.2	2.4	3.6	2.7	2.3
Core CPI-U Inflation (% growth)*	n.a.	2.4	1.2	1.2	1.5	2.0	2.6	2.3	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	3.2	2.8	2.8	3.2	3.9	3.9
Output per Hour (% growth)	—	—	—	—	4.7	2.1	3.2	2.5	3.4	3.8
Financial Markets										
T-bill Rate, 3-month (level, %)	3.88	3.71	3.42	3.44	3.36	2.86	2.54	2.01	1.37	1.01
T-note Rate, 10-years (level, %)	4.54	4.46	4.20	4.26	4.21	4.16	4.30	4.17	4.27	4.01
Federal Funds Rate (level, %)	4.00	3.78	3.62	3.50	3.46	2.94	2.47	1.95	1.35	1.13
Dow Jones Industrial Avg (index level)	10695	10324	10533	10554	10544	10382	10648	10362	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **U.S. International Transactions: Third Quarter 2005** [Release: Friday, December 16]
- **New Residential Construction: November 2005** [Release: Tuesday, December 20]
- **Producer Price Indexes: October 2005** [Release: Tuesday, December 20]